

FSCS Podcast – Episode 38: Mini-pod: How is FSCS funded?

Jess Spiers 00:01

Welcome to Protect your money with FSCS, the podcast from the Financial Services Compensation Scheme. Today, we've got a mini-pod for you- a special bitesize episode where we talk through a particular topic to explain it all simply. In this series, we explain how we can help to protect your money, so you can feel confident your money is safe. Let's get into the conversation now.

Amy Alford 00:27

Hello, everyone. I'm Amy Alford, a Content Editor here at FSCS. Today, I'm joined by Jess Spiers, our Senior Content Manager. She should be a familiar voice as she's the original host of the FSCS podcast. I think today is the first time you're joining as a guest though, Jess?

Jess Spiers 00:43

Yeah, that's right, hi Amy. I'm on the other side of the microphone today. Thank you for having me.

Amy Alford 00:48

Ah, it's great to have you. In this short episode, we're going to be explaining how FSCS is funded. We've touched on this in a few of our other podcast episodes and I know that personally, it's something that I'm always asked by friends and family when I talk about where I work. Let's start with a quick overview of FSCS. Jess, could you briefly explain who we are?

Jess Spiers 01:09

Yeah, sure. So FSCS is the UK's financial compensation scheme. We are a non-profit organisation and we protect customers of authorised financial services firms if they fail or if they've stopped trading. We may be able to pay you compensation if an authorised financial firm goes out of business and it can't pay back the money owes to you.

Our service is completely free to use and you will keep 100% of the compensation you're owed when you claim directly through us, and that's something we always want people to know. So FSCS was set up by the government, but we are independent and we're funded by the financial services industry.

Amy Alford 01:46

And that final point is the one we want to explain it in a bit more depth today. I think a lot of people assume that FSCS is government funded, but as Jess said, the money actually comes from the financial services industry.

This happens through an annual levy that we charge to regulated financial firms. These are firms that are authorised by either the Financial Conduct Authority, or FCA, or the Prudential Regulation Authority, or PRA. This levy funds the compensation we pay out to customers with valid claims, as well as the cost of running our service and processing claims.

Jess Spiers 02:17

Yeah, that's right, and a lot of work goes into forecasting the levy to make sure that it's fair and balanced for the firms that pay it. So we work closely with the FCA and the PRA that you just

mentioned, Amy, as well as the Financial Ombudsman Service and the wider industry to monitor trends and predict as accurately as we can how much money FSCS will need to process claims and pay the compensation that's needed for the year in question.

Now, of course, things can change. Things like unexpected firm failures, changes in policy or shifts in economic conditions, things like that can all contribute to FSCS needing to pay more or less compensation than we initially forecast. So we do constantly review our prediction, and we use our publications to share regular updates. So every year we publish a Budget Update at the start of the calendar year, two Outlook reports, one in spring and one in autumn, and our Annual Report and Accounts each summer. And you can find all of these publications on our website.

Amy Alford 03:19

The money we receive from the annual levy means FSCS can provide a safety net for customers, which gives reassurance and helps to increase trust in the financial services industry as a whole.

Now, one of the criticisms of this funding model is that it means the good players in the industry are paying for the bad. We're aware of that and we work hard to reduce the annual levy where we can. One of the best ways we can do this is by pursuing what we refer to as recoveries. Jess, can you tell us a bit more about what this means?

Jess Spiers 03:47

Yeah, sure. I actually love talking about recoveries as it's such a brilliant thing that we do that doesn't always get talked about. So in a nutshell, where it's reasonably possible and cost-effective to do so FSCS will try to recover money from financial firms that have failed and other relevant third parties. We usually do this by making a claim in the firm's insolvency.

Now as we're a non-profit organisation, the funds we recover are always put back into running our service and to paying compensation to our customers. This in turn helps to reduce the amount of money we need to raise through the industry levy that we're talking about. So in the financial year ending March 2024, FSCS successfully recovered over £54million from the estates of failed financial services providers. Now the majority of this has been used to offset the cost of the levy.

We have actually covered recoveries in a bit more detail in a previous podcast episode. So if you would like to hear more about that, I would recommend listening to episode 17.

Amy Alford 04:49

Thanks, Jess. Yes, that episode is really interesting, so definitely worth giving it a listen. You'll find all of our previous episodes on our website, which is [fscs.org.uk](https://www.fscs.org.uk), as well as in all of the usual places you'd find your podcasts.

There's also lots more information about what we've discussed today on our website, but I hope this mini-pod has given you a handy overview of how FSCS is funded. Thanks to Jess for joining me today and thanks very much for listening.